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DEPT PASS TO USTR-AGAMA, EXIM-RICHTER, USTDA-EBONG
TREASURY FOR PETERS AND HALL
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DOE FOR GAY AND PERSON
LONDON FOR POLOFF RICK BELL FOR AF DAS TODD MOSS

E.O. 12958: N/A
TAGS: EFIN ECON ETRD EINV PGOV NI
SUBJECT: FINANCE MINISTER, BANK GOVERNOR: NIGERIA MOVING
FORWARD (BEFORE LONG)

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¶1. (SBU) Participants at an Economist Magazine roundtable in Abuja kept up a drumbeat of concern that the Yar'Adua Government is not moving quickly enough to deepen reforms and respond to economic needs, including infrastructure. Finance Minister Usman made a strong case that the GON is preparing plans on oil, gas, and power for rollout in the next month or so. Central Bank Governor Soludo defended dollar distributions to state governments and expressed his confidence that bank capitalization will benefit Nigeria's lagging industrial sector. End Summary.

¶2. (SBU) The Economist Fourth Business Roundtable with the Government of Nigeria was held in Abuja January 14-15. Participants repeatedly questioned when the Government would finally roll out concrete policies and programs for oil and gas and electric power to support the Seven Point Agenda and the goal of Nigeria becoming one of the world's top twenty economies by 2020.

¶3. (SBU) Finance Minister Shamsudeen Usman stated in his presentation to the Roundtable that the Yar'Adua administration had been moving methodically in order to govern based on rule of law, but was about to roll out policies in key areas, including an electricity tariff structure that would allow power plant and related investments to move forward. He predicted the National Assembly would approve the 2008 Budget by the end of January. He stressed the Government's determination to maintain the macroeconomic stability of recent years, and to avoid ill-conceived projects. Referring to a USD nine billion rail agreement with the Chinese reached under the previous administration, Usman said, "If that had happened in China, those involved would have been shot."

¶4. (SBU) Continuing, Dr. Usman noted that USD 10 billion had been spent on the power sector from 2000-2007, with little discernible increase in supply. He said Nigeria's big mistake in the three previous oil booms was "translating oil dollars into Naira and spending it." He stressed the need to commit to a long-term oil reserve fund. Usman said Nigeria needed to invest USD 40-50 billion in infrastructure over the next six years to double current growth rates. He said policies and regulations for infrastructure would be

forthcoming by the end of February, including a clear plan for the power sector.

¶5. (SBU) Usman emphasized that the Government was working broadly on reforms, including customs, tax policy, compliance with due process, and public sector reform. It was also working to have each state government adopt fiscal responsibility and due process and assisting with the establishment of state-level debt management offices.

¶6. (SBU) In response to a presentation by an executive with Proctor and Gamble and to a question from the floor by Econcouns, Usman said that a committee led by former Senator Udoma Udoma was taking a hard look at Nigeria's system of high tariffs and many import bans. He admitted that virtually all banned goods were being sold in Nigeria, and thus potential tariff revenues were instead enriching individual officials. Usman said Udoma would complete his report by the end of January. The Government's goal was to create a level playing field -- if an industry were entitled to a concession or an incentive, those would be made available to all companies.

¶7. (SBU) Usman appealed to the private sector for expert advice to ensure that ongoing policies were clear, including a new national tax policy currently under development. The Government was establishing a joint tax board to coordinate the tax policies and practices of the national, state, and local governments, and to cut down on abuses.

¶8. (SBU) In his own presentation, Central Bank (CBN) Governor Chukwuma Charles Soludo highlighted the challenge of maintaining single digit inflation in the face of high oil prices, pressure to increase spending, and rising capital

inflows. He noted recent high returns in Nigerian money markets and capital markets, and his focus on the future healthy development of the financial sector, and the banks in particular.

¶9. (SBU) Professor Soludo stated that preliminary figures from the National Bureau of Statistics indicated a 2007 growth rate of 7.6 percent, in a political transition year. The inflation estimate stood at around 5.2 percent, down from 8.5 percent at the end of 2006. Transport, education and health prices remained high. Monetary policy had been tight for the past two years, due to liquidity injections.

¶10. (SBU) Soludo defended the CBN's decision to share inflows in the currency in which they were earned, including Paris Club accounts and oil revenues, to avoid an oversupply of Naira in the domestic markets. He acknowledged past concerns about capital flight, but pointed out that capital inflows had increased as the bank had eased off the currency controls which had been very stringent earlier in Nigeria's history.

¶11. (SBU) The CBN's current approach was to target monetary aggregates and to move to an inflation targeting framework, in line with the Central Bank Act of 2007. Price stability was now the CBN's number one function. Soludo said the bank needed to allow markets to operate freely, while realizing that could lead to appreciation of the exchange rate, especially as the CBN controlled less than 30 percent of the forex supply, which was dominated by the interbank market. He said Nigeria needed a competitive exchange rate regime to avoid killing off the nascent non-oil sector.

¶12. (SBU) Soludo said that banking sector consolidation since 2005 had resulted in an almost four-fold increase in aggregate credit to the economy. At the same time, he acknowledged audience concerns about how deep into the economy credit was moving and was convening a national stakeholders forum on banks and the economy. Nonetheless, credit to the private sector had grown by close to 100 percent, and total bank branches had expanded from 3200 to

¶4300. Depositors had increased from 15 to 22 million. Larger, stronger Nigerian banks now had operations in 18 African countries and would operate throughout the entire continent within a few years, Soludo predicted.

¶13. (SBU) On foreign ownership, Soludo said foreign banks could set up freely in Nigeria, but the CBN would look closely at acquisitions of shares of Nigerian banks. He said that studies showed that ownership mattered in the role commercial banks played in national development. The CBN will come out with formal guidelines on acquisitions and mergers, but Soludo expressed a preference for Nigerian entities retaining at least 60 percent ownership and for mergers with foreign banks to take place only after five years of in-country operations extending to two-thirds of Nigeria's 36 states, "excluding state capitals." He said that Nigeria would remain one of the most liberal markets for the entry of foreign banks, and in comparison cited U.S. concerns about small minority foreign ownership shares of American banks.

¶14. (SBU) Soludo appeared sanguine that negative impacts would be minimal if the National Assembly raised the crude oil reference price from USD 54 to USD 59, noting that the Economist Intelligence Unit had predicted high oil prices through the mid-term. He said he and the GON were grappling with how to manage the excess crude account. Given that the Constitution stated that revenues had to be "shared" with the three levels of government, he said a system of "sharing by holding" was under discussion to avoid problematic legal issues while still preserving funds for the future.
SANDERS